

GAO

Briefing Report to the Honorable
Bill Bradley, U.S. Senate

September 1988

COMMERCIAL
BANKING

Lending to Troubled
Sectors



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United States
General Accounting Office
Washington, D.C. 20548

General Government Division

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September 26, 1988

The Honorable Bill Bradley
United States Senate

Dear Senator Bradley:

In response to your request and conversations with your office, this briefing report shows the extent to which certain commercial banks have made loans to troubled economic sectors that are either depressed or have volatile prices. Depressed sectors are a concern to federal bank regulators because borrowers in these sectors are more likely to default and be unable to make timely payments of principal and interest. Sectors with volatile prices are a concern because they can experience large and drastic price declines that can financially depress producers and create similar loan loss problems. Federal bank regulators believe that significant exposures to troubled sectors and resulting loan losses can erode the capital cushion that protects the safety and soundness of the commercial banking industry.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this review were to identify the extent to which the commercial banking industry was significantly exposed to economic sectors that were troubled in 1987 and to relate these exposures to measures of safety and soundness, such as the level of a sectoral exposure compared to a bank's total capital. Loans to a troubled sector were considered to be a significant loan exposure if they exceeded 1 percent of a bank's assets and 25 percent of its total capital.

It should be noted that the safety and soundness of a bank do not depend exclusively on its sectoral exposure. For example, the quality of management, the overall financial condition of the bank, loan underwriting, and loan review procedures all help determine the bank's condition. Thus, well-managed banks may succeed while poorly managed banks may fail despite their similar sectoral exposures.

For this review, we determined the number of banks with significant loan exposures to four troubled sectors and the value of these loans at the end of 1987. The troubled sectors were agriculture, developing countries, securities (acquisition and carrying), and real estate (construction and development). We also included loan exposure data for energy at the end of 1986, from the last complete update on energy exposures available from the Federal Deposit Insurance Corporation (FDIC). These five sectors were identified as troubled based on our reviews of data on the financial condition of these sectors over time and our conversations with federal regulators and industry specialists. Other sectors may have been more troubled or may have constituted a larger significant loan exposure, but are not discussed in this report because the available data did not permit their separate identification and analysis.

Most of the data were collected in financial statements (the Reports of Condition and Income) submitted by the banks to the federal regulators. The information on energy and developing country loans was collected in special surveys by these regulators. In preparing this report, we did not audit the Reports of Condition and Income submitted by commercial banks to the regulators or audit the systems that regulators used to transcribe these reports to the computer tapes we used to do our calculations.

Our work was done between March 1987 and June 1988, in accordance with generally accepted government auditing standards. Details of our objectives, scope, and methodology are in appendix I.

RESULTS IN BRIEF

Of the 13,700 insured commercial banks in the United States, 9,604 had significant loan exposures to one or more of the five troubled sectors at year end 1987. These exposed banks held \$249.16 billion in loans to these sectors or about 99 percent of the commercial banking industry's total capital. The most frequent exposures were to the real estate or agricultural sectors individually or in combination with other sectors.

In general, as the number of sectoral exposures increased within banking organizations, so did measures of the extent of their financial risk. For example, banks with one significant exposure had low quality loans whose value was equal to about 17 percent of the total capital, while at

banks with four significant exposures, the value of low quality loans constituted nearly 48 percent of the capital. Similarly, in banks exposed to one sector the subject loans constituted about 90 percent of their capital, while banks with exposure to four sectors had loans to those sectors that comprised nearly 250 percent of their capital.

AGENCY COMMENTS

This report was sent for review and comment to FDIC, the Office of the Comptroller of the Currency (OCC) and the Board of Governors of the Federal Reserve System. All responded informally. The Federal Reserve had no comments.

Both FDIC and OCC commented that there were factors other than sectoral exposure that affected a bank's safety and soundness. Such factors as management competence, policies, and loan review procedures, as well as the loan underwriting procedures we mentioned, affect a bank's condition. We agree and have modified our discussion of factors that affect a bank's condition.

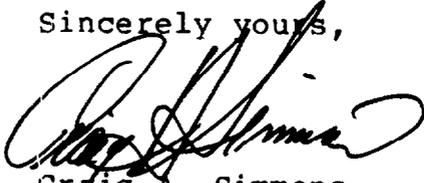
FDIC noted that we used the same measure of a significant exposure (exceeding 1 percent of assets and 25 percent of capital) in all sectors, even though risks could differ across sectors. They said that equal exposure criteria could therefore be misleading because equal exposures may be interpreted as equally risky. We do not believe our report suggests that any specific level of exposure is equally risky in different sectors. Rather, a uniform measure permits us to concentrate on the relative exposure across sectors, which is the primary purpose of this report.

FDIC and OCC also offered technical comments which have been incorporated in the report where appropriate.

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As arranged with your office, copies of this report will be distributed to interested parties. If you need further information about this briefing report, please call me on (202) 275-8678.

Sincerely yours,



Craig A. Simmons
Senior Associate Director

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ABBREVIATIONS

FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
OCC	Office of the Comptroller of the Currency

DETAILED ANALYSIS OF SECTORAL EXPOSURES

Over the past several years, commercial banking has experienced decreasing profits, increasing problem loans to depressed or volatile sectors of the economy, and an increasing rate of bank failures. Bank profit rates peaked in 1980 with a return on assets of 0.75 percent and have declined since then to 0.61 percent in 1986 and 0.12 percent in 1987, even though there has been a sustained national economic recovery since the 1982 recession. The allowance set aside to cover loans that have uncertain prospects for repayment of interest and principal increased from 0.54 percent of assets in 1980 to 0.98 percent in 1986 and 1.6 percent of assets in 1987.¹ In addition, the annual failure rate for banks increased over tenfold, from 0.11 percent in 1976 to 1.3 percent in 1987.

This review, undertaken at the request of Senator Bill Bradley, identified the commercial banking industry's loan exposures to troubled economic sectors that were depressed in 1987 or may become depressed in the future due to the volatility of their product's prices.² As suggested by Senator Bradley, we focused on the extent to which commercial banks' loans to agriculture, energy, real estate (construction and development only), and developing countries comprised a significant portion of a bank's capital and loans. In doing so, we used a definition of significant exposure based on the criteria that bank regulatory agencies used to identify foreign country and energy sector exposures reported in special surveys. Due to concerns about the stock market, we also focused on loans for acquiring or carrying securities.

¹The 1987 profit and allowance reflect accounting provisions that recognize repayment problems in some loans to less developed countries.

²Volatile prices for its output can lead to a depression in a sector if a large decrease in the price of the sector's output lowers revenues, creates losses, and leads to a decline in output.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this review were to identify banks with significant loan exposures to troubled economic sectors and to determine the value of commercial bank loans to various troubled sectors of the economy in relation to measures of safety and soundness. It was not possible to determine future probable losses, and therefore the ultimate effect on safety and soundness that could result from such exposures, because the actual extent of loan losses in these troubled sectors depends on unpredictable changes in the economy and federal policies toward the sectors and commercial banking.

The extent to which such loans to a particular sector affect banking profits and total capital³ depends on (1) the relative proportion of a bank's assets devoted to the troubled sector, (2) the severity of problems in the troubled sector, and (3) the impact of these problems on the ability of the members of the troubled sector to make timely payments of both interest and principal.

Complete financial data on the bank and loan data for agriculture, real estate, and securities are reported on standard Reports of Condition and Income submitted by banks to the Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC) or the Federal Reserve Board. Supplementary bank reports on energy and developing country loan concentrations were obtained from surveys by federal bank regulators. (See table I.1.) Exposure information for other sectors is not available for each and every bank. (See app. II for a discussion of the surveys used to gather data on loans to the energy sector and developing countries.)

³Total capital is defined as the resources available to the bank that cushions it against loan losses. It includes equity capital, allowance for loan and lease losses, mandatory convertible instruments, minority interests in equity accounts of consolidated subsidiaries, notes and debentures subordinated to deposits, and limited life preferred stock.

Table I.1:1987 Reporting Requirements
for Bank Loans to Troubled Sectors

<u>Sector</u>	<u>Reporting requirement</u>
Domestic agriculture	Reports of Condition and Income All loans are reported
Domestic real estate (construction and development)	Reports of Condition and Income All loans are reported
Securities (carrying and acquiring)	Reports of Condition and Income All loans are reported by banks with more than \$100 million in total assets
Energy	Supplementary bank reports Loans are reported or are identified by regulators only when energy loans constitute more than 25 percent of a bank's equity capital
Developing countries	Supplementary bank reports Loans are reported only when they constitute more than 20 percent of a bank's primary capital or more than 1 percent of its assets.

Sources: Reports of Condition and Income, FDIC's Energy Report and the Country Exposure Information Report of the Federal Financial Institutions Examination Council.

All loan values except energy were taken as of December 1987, the last year that was available for analysis when this report was written. The unavailability of data on energy loans on December 31, 1987, required substitution of data from December 31, 1986.

Banks significantly exposed to any combination of troubled sectors were evaluated in terms of the following measures:

- the number of exposed banks,
- the total value of all their loans,
- the value of their loans to significantly exposed sectors as a percent of total loans,
- the value of their loans to significantly exposed sectors as a percent of total capital, and
- the value of all their low quality loans as a percent of total capital.

These five measures are reported for all banks with one or more significant exposures and separately for banks exposed to one, two, three, and four sectors.

The number of banks and value of loans within a particular set of significantly exposed banks provide information on the extent to which these banks may be weakened by problem loans. As the value of loans to particular depressed or vulnerable sectors increases relative to capital or loans, so may low quality loans and resulting loan write-offs. Write-offs of bad loans can decrease profits and the total capital available to cushion against further losses. The value of low quality loans as a percent of total capital is a direct measure of problems in the portfolio because low quality loans are less likely to pay interest and more likely to be written off in the future.

Our work was done in accordance with generally accepted government auditing standards. The views of responsible agency officials were sought during the course of our work and incorporated where appropriate.

DESCRIPTION OF THE TROUBLED SECTORS

The five sectors we analyzed in this review were either depressed in 1987 or historically subject to volatile prices that could periodically create problems in the sectors as output prices fall.

Real estate, due to over-building and the resulting high foreclosures on both commercial and residential properties, continued to be a problem in 1987, particularly in the southwest. Domestic real estate is volatile because short-term construction mortgages must eventually be retired when developers either sell their projects or find long-term tenants for commercial projects. In the event of local economic downturns or increases in interest rates, developers may have trouble retiring their construction mortgages.

Domestic agriculture in 1987 was depressed, although somewhat recovered from the early 1980s. Historically, agricultural prices have been volatile. During the late 1970s, commercial banks helped finance the expansion of American agricultural production that was driven by high prices and heavy international demand. By the early 1980s the situation reversed, and financially overextended farmers were unable to cover their debts and faced unusually high real interest rates. Indicators of the financial condition of domestic agriculture have improved somewhat since 1986. However, much of this improvement is due to increased federal support of farming and a depreciation in the exchange value of the dollar, which boosts agricultural exports. Any reversal of federal support, appreciation of the dollar, or unfavorable weather conditions could adversely affect farmers' ability to pay off loans.

The stock market crash of October 1987 demonstrated the volatility of stock market prices and the consequences of borrowing based on collateral values of purchased stock. Domestic U.S. bank office loans that are used for the acquisition and carrying of securities may be considered risky because the value of stock used as collateral on bank loans depends on the volatile movements of stock market prices. When market prices fall and collateral values are reduced, borrowers may have to sell the stocks to cover their loans.

The energy sector was depressed in 1987 because its expansion had been tied to the high energy prices and limited supplies of oil in the 1970s. The subsequent decline and volatility

of oil prices and readily available supplies in the 1980s have decreased the value of both oil and other energy projects financed by banks. Oil prices in 1988 remain low and the sector is still depressed.

The allowances that covered developing country loans by the largest banks in 1987 indicate that loans to these countries may pose a problem to the stability of the banking system. Loans to developing countries have been affected by changing prices for oil and other commodities⁴ because increased cost of oil imports must be paid from increased exports or loans. To finance their oil and expansion needs in the 1970s, developing countries borrowed from U.S. banks. The rapid appreciation of the dollar relative to other currencies in the early 1980s, a decrease in the relative value of raw material and commodities sold by most developing countries, and sustained high real interest rates greatly increased the debt burden of developing countries and adversely affected their ability to repay their loans from U.S. banks.

MOST BANKS HAVE AT LEAST ONE SIGNIFICANT
LOAN EXPOSURE TO TROUBLED SECTORS

In 1987, 9,604 of the 13,700 insured commercial banks were significantly exposed to at least one of the five sectors analyzed in our study. (See table I.2.)

The number of exposures, the proportion of significantly exposed loan values to total capital, and the proportion of low quality loans to total capital were found to be positively correlated with one another. In banks with no significant exposures, all low quality loans were 10.3 percent of their capital. In banks with one exposure, significantly exposed loans were 89.6 percent of capital and all low quality loans were 16.7 percent of their capital. In banks with four exposures, significantly exposed loans were 249.1 percent of capital and all low quality loans were 47.8 percent of capital.

Increasing the exposure to troubled industries may increase the probability that the capital cushion will deteriorate, since low quality loans are more likely to be written off if the bank determines that the principal or interest will not be repaid on a timely basis. This, in turn, decreases the capital cushion to absorb any future write-offs of bad loans.

⁴See appendix II for a discussion of how loans to developing countries are tabulated and recorded in the survey used to determine foreign loan exposure.

Table I.2:

Exposures and Loan Quality in Banks
With a Significant Exposure to Troubled Sectors
 (loan values in billions of dollars)
 (year end 1987 data)

	<u>No. of banks</u>	<u>Book value of loans to troubled^a sectors</u>	<u>Value of loans to troubled sectors as a % of loans</u>	<u>Value of loans to troubled sectors as a % of capital^b</u>	<u>Low quality^c loans as a % of capital</u>
Banks with one exposure	8,550	\$99.65	11.9	89.6	16.7
Banks with two exposures	988	54.90	17.8	128.0	34.7
Banks with three exposures	60	83.16	24.2	185.2	50.7
Banks with four exposures	<u>6</u>	<u>11.45</u>	28.3	249.1	47.8
All banks with one to four exposures ^d	<u>9,604</u>	<u>249.16</u>	16.3	122.4	28.7
Banks with no significant exposures	4,096				10.3

Note: Loans to a troubled sector are a significant exposure if they exceed 25 percent of capital and 1 percent of assets.

^aBook values are taken directly from the Report of Condition and Income submitted by banks to regulators.

^bCapital is the sum of equity capital, allowance for loan and lease losses, mandatory convertible instruments, minority

interests in equity accounts of consolidated subsidiaries, notes and debentures subordinated to deposits, and limited life preferred stock.

^cLow quality loans are 90 or more days overdue or nonaccruing.

^dThe number of banks and book value of loans to troubled sectors in this row are the sum of their values in the preceding rows.

BANKS WITH ONE SIGNIFICANT EXPOSURE

There were 8,550 banks with one significant exposure. They held \$99.65 billion in significantly exposed loans. (See table I.3.) Most banks with one exposure had loans outstanding to either the agriculture or real estate sectors. Significant real estate exposures of \$65.27 billion represented most of the total value of the significantly exposed loans for banks with one significant exposure. However, banks exposed to agriculture had loans to this sector whose total value was 118 percent of capital.

Table I.3:

Exposures and Loan Quality in Banks
With a Significant Exposure to One Troubled Sector
 (loan values in billions of dollars)
 (year end 1987 data)

	<u>No. of banks</u>	<u>Book value of loans to troubled^a sectors</u>	<u>Value of loans to troubled sectors as a % of loans</u>	<u>Value of loans to troubled sectors as a % of capital^b</u>	<u>Low quality^c loans as a % of capital</u>
Energy ^d	90	\$1.89	11.9	70.8	17.3
Developing countries	13	3.45	9.6	57.1	29.2
Agriculture	5,984	28.40	22.3	118.4	13.1
Real estate	2,453	65.27	10.0	84.8	17.0
Securities	<u>10</u>	<u>0.64</u>	6.3	41.8	10.2
All banks with one exposure ^e	<u>8,550</u>	<u>\$99.65</u>	11.9	89.6	16.7

Note: Loans to a troubled sector are a significant exposure if they exceed 25 percent of capital and 1 percent of assets.

^aBook values are taken directly from the Report of Condition and Income submitted by banks to regulators.

^bCapital is the sum of equity capital, allowance for loan and lease losses, mandatory convertible instruments, minority interests in equity accounts of consolidated subsidiaries, notes and debentures subordinated to deposits, and limited life preferred stock.

^cLow quality loans are 90 days overdue or nonaccruing.

^dEnergy data is from year end 1986.

^eThe number of banks and book values of loans in this row are the sum of their values in the preceding rows.

BANKS WITH TWO SIGNIFICANT EXPOSURES

There were 988 banks with two significant exposures. They held \$54.90 billion in significantly exposed loans. (See table I.4.) There were 737 banks simultaneously exposed to agriculture and real estate. However, the three banks exposed to developing countries and energy had the largest absolute exposure of \$18.21 billion. The one bank that was exposed significantly to both securities and energy had the highest proportion of low quality loans (99.0 percent of capital).

Table I.4:

Exposures and Loan Quality in Banks
With a Significant Exposure to Two Troubled Sectors
 (loan values in billions of dollars)
 (year end 1987 data)

	<u>No. of banks</u>	<u>Book Value of loans to troubled^a sectors</u>	<u>Value of loans to troubled sectors as a % of loans</u>	<u>Value of loans to troubled sectors as a % of capital^b</u>	<u>Low quality^c loans as a % of capital</u>
Energy ^d & developing countries	3	\$18.21	20.4	113.4	33.9
Energy & agriculture	119	1.26	26.1	153.4	25.7
Energy & real estate	74	5.54	19.3	161.4	41.8
Agriculture & developing countries	0				
Developing countries & real estate	13	12.98	15.2	120.1	43.6
Agriculture & real estate	737	11.52	17.4	145.0	23.5
Securities & energy	1	.07	17.3	89.7	99.0
Securities & agriculture	3	.05	12.1	81.4	12.0
Securities & real estate	36	4.21	14.6	138.1	31.8

	<u>No. of banks</u>	<u>Book Value of loans to troubled^a sectors</u>	<u>Value of loans to troubled sectors as a % of loans</u>	<u>Value of loans to troubled sectors as a % of capital^b</u>	<u>Low quality^c loans as a % of capital</u>
Securities & developing countries	<u>2</u>	<u>1.06</u>	24.1	170.5	26.0
All banks with two exposures ^e	<u>988</u>	<u>54.90</u>	17.8	128.0	34.7

Note: Loans to a troubled sector are a significant exposure if they exceed 25 percent of capital and 1 percent of assets.

^aBook values are taken directly from the Report of Condition and Income submitted by banks to regulators.

^bCapital is the sum of equity capital, allowance for loan and lease losses, mandatory convertible instruments, minority interests in equity accounts of consolidated subsidiaries, notes and debentures subordinated to deposits, and limited life preferred stock.

^cLow quality loans are 90 days overdue or nonaccruing.

^dEnergy data is from year end 1986.

^eThe number of banks and book values of loans in this row are the sum of their values in the preceding rows.

BANKS WITH THREE SIGNIFICANT EXPOSURES

There were 60 banks with three significant exposures with a total loan exposure of \$83.16 billion. (See table I.5.) Twenty-five of these were exposed simultaneously to energy, agriculture, and real estate. However, most of the value of exposed loans was accounted for by the 10 banks that lent to energy, developing countries, and real estate. These 10 banks held \$69.90 billion in significantly exposed loans and had 51.1 percent of their total capital exposed to low quality loans.

Table I.5:

Exposures and Loan Quality in Banks
With a Significant Exposure to Three Troubled Sectors
 (loan values in billions of dollars)
 (year end 1987 data)

	<u>No. of banks</u>	<u>Book value of loans to troubled^a sectors</u>	<u>Value of loans to troubled sectors as a % of loans</u>	<u>Value of loans to troubled sectors as a % of capital^b</u>	<u>Low quality^c loans as a % of capital</u>
Energy, d developing countries, & real estate	10	\$69.90	23.6	180.1	51.1
Energy, agriculture, & real estate	25	1.67	36.6	356.7	73.0
Agriculture, developing countries, & real estate	1	.93	16.1	131.1	14.9
Securities, energy & developing countries	2	4.09	25.5	160.6	23.1
Securities, energy, & agriculture	1	.12	29.3	267.4	39.3
Securities, energy & real estate	11	5.46	34.5	314.1	91.5

	<u>No. of banks</u>	<u>Book value of loans to troubled^a sectors</u>	<u>Value of loans to troubled sectors as a % of loans</u>	<u>Value of loans to troubled sectors as a % of capital^b</u>	<u>Low quality^c loans as a % of capital</u>
Securities, agriculture, & real estate	9	.56	21.7	186.1	50.7
Securities, developing countries, & real estate	1	.41	15.7	146.5	47.6
Energy, developing countries, & agriculture	0	0	--	--	--
Securities, agriculture & developing countries	<u>0</u>	<u>0</u>	--	--	--
All banks with three exposures ^e	<u>60</u>	<u>\$83.16^f</u>	24.2	185.2	50.7

Note: Loans to a troubled sector are a significant exposure if they exceed 25 percent of capital and 1 percent of assets.

^aBook values are taken directly from the Report of Condition and Income submitted by banks to regulators.

^bCapital is the sum of equity capital, allowance for loan and lease losses, mandatory convertible instruments, minority interests in equity accounts of consolidated subsidiaries, notes and debentures subordinated to deposits, and limited life preferred stock.

^cLow quality loans are 90 days overdue or nonaccruing.

^dEnergy data is from year end 1986.

^eThe number of banks and book value of loans in this row are the sum of their values in the preceding rows.

^fDoes not add due to rounding.

BANKS WITH FOUR SIGNIFICANT EXPOSURES

There were six banks that were significantly exposed to four sectors, and they held \$11.45 billion in significantly exposed loans. (See table I.6.) Three of these banks were exposed to energy, developing countries, real estate, and securities. These three banks held \$9.19 billion in exposed loans, and had 46.5 percent of their total capital exposed to low quality loans.

Table I.6:

Exposures and Loan Quality in Banks
With a Significant Exposure to Four Troubled Sectors
 (loan values in billions of dollars)
 (year end 1987 data)

	<u>No. of banks</u>	<u>Book value of loans to troubled^a sectors</u>	<u>Value of loans to troubled sectors as a % of loans</u>	<u>Value of loans to troubled sectors as a % of capital^b</u>	<u>Low quality^c loans as a % of capital</u>
Energy, ^d developing countries, real estate, & securities	3	\$ 9.19	29.4	249.1	46.5
Energy, agriculture, real estate, & securities	2	.35	43.2	443.0	51.8
Energy, developing countries, real estate, & agriculture	<u>1</u>	<u>1.91</u>	22.9	230.8	53.4
All banks with four exposures ^e	<u>6</u>	<u>\$11.45</u>	28.3	249.1	47.8

Note: Loans to a troubled sector are a significant exposure if they exceed 25 percent of capital and 1 percent of assets.

^aBook values are taken directly from the Report of Condition and Income submitted by banks to regulators.

^bCapital is the sum of equity capital, allowance for loan and lease losses, mandatory convertible instruments, minority interests in equity accounts of consolidated subsidiaries, notes and debentures subordinated to deposits, and limited life preferred stock.

^cLow quality loans are 90 days overdue or nonaccruing.

^dEnergy data is from year end 1986.

^eThe number of banks and book value of loans in this row are the sum of their values in the preceding rows.

DISCUSSION OF ENERGY AND FOREIGN DEBT SURVEYS

In the energy survey, only banks that had energy loans in excess of 25 percent of their capital were required to report such loans. As a result, not all energy sector loans were reported. Energy loan information was obtained from an FDIC list of energy banks. This list contains information from special energy reports filed by banks that are regulated by the Office of the Comptroller of the Currency (OCC) and from an FDIC survey of its regional offices.¹

Developing country loans consist of loans to developing countries which are made by banks with total foreign loans in excess of the minimum requirements of 20 percent of a bank's capital or 1 percent of its assets. As a result, not all developing country loans are reported. The comprehensive information on foreign loans to developing countries is obtained from the Country Exposure Report of the Federal Financial Institutions Examination Council (FFIEC).² The report, which lists the amounts of loans to individual countries, is filed by commercial banks or bank holding companies which have consolidated foreign claims exceeding \$30 million and a foreign office, foreign subsidiary, Edge Act Corporation, or international banking facility.³

Bank holding companies report foreign loans on either an individual bank basis or on a consolidated holding company basis, depending on the distribution of foreign loans among banks and other subsidiaries of the holding company. One impact of this reporting inconsistency is that some foreign

¹Although the energy loans have not been verified by FDIC, the data are considered to be reliable. The OCC estimates that its reports account for 99 percent of the total energy loans of national banks, while the FDIC estimates that its survey accounts for 95 percent of the total energy loans of FDIC-supervised banks that are not included in the OCC report.

²The FFIEC is a coordinating group for the OCC, the Federal Reserve Board, the FDIC, the Federal Home Loan Bank Board, and the National Credit Union Administration.

³An Edge Act Corporation is a subsidiary of a bank formed for the purpose of international banking. An International Banking Facility segregates accounts of a bank in the United States through which deposits and loan business with foreign residents may be conducted without being subject to reserve requirements, interest rate ceilings, and insurance coverage and assessments.

loans reported on a bank holding company basis cannot be traced to individual banks. This underestimates the total foreign exposure of an individual commercial bank. A second impact is that some foreign loans held by a bank holding company may be listed as an asset of an individual bank, rather than the holding company, which leads to an overestimation of the total foreign exposure of the individual commercial bank.

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